

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name EMMET COUNTY ROAD COMMISSION	County EMMET
Audit Date December 31, 2004	Opinion Date April 21, 2005	Date Accountant Report Submitted to State: May 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson Tackman & Company, PLC			
Street Address 16978 S. RILEY AVE	City KINCHELOE	State MI	ZIP 49188
Accountant Signature Anderson Tackman & Co Pdc			

EMMET COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

EMMET COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Leroy Sumner
Vice - Chairman

Frank Zulski, Jr.
Chairman

K. Frederick Hoffmann D.D.S.
Member

Brian A. Gutowski, P.E.
Engineer - Manager

Judy Fouch
Clerk

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet	11
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15
Required Supplementary Information:	
Budgetary Comparison Schedule:	
Statement of Revenues	27
Statement of Expenditures	28
Other Supplementary Information:	
Analysis of Changes in Fund Balances	29
Analysis of Revenues	30
Analysis of Expenditures	31
Compliance Reports:	
Report on Internal Control over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32
Schedule of Expenditures of Federal Awards	34



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited the accompanying financial statements of the governmental activity and the major fund of the Emmet County Road Commission (a component unit of the County of Emmet, Michigan) as of and for the year ended December 31, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund of the Emmet County Road Commission as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2005, on our consideration of the Emmet County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Emmet County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 21, 2005

Management's Discussion and Analysis

Using This Annual Report

The Emmet County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 27 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 6.56% from \$5.4 million to \$5.7 million for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$640 thousand. The primary reason for the decrease was capital outlay expenditures. It is important for the reader to realize that the increase in net capital assets is largely a result of the road commission electing to report infrastructure assets.

Net assets as of the years ended December 31, 2004 and 2003 are as follows:

	Governmental Activities	
	2004	2003
Current and Other Assets	\$ 1,985,897	\$ 2,565,124
Capital Assets	<u>6,908,252</u>	<u>5,941,795</u>
Total Assets	<u>8,894,149</u>	<u>8,506,919</u>
Current Liabilities	808,799	660,628
Other Liabilities	<u>2,355,642</u>	<u>2,469,604</u>
Total Liabilities	<u>3,164,441</u>	<u>3,130,232</u>
Net Assets:		
Invested in Capital Assets	4,517,692	3,524,640
Restricted	<u>1,212,016</u>	<u>1,852,047</u>
Total Net Assets	<u>\$ 5,729,708</u>	<u>\$ 5,376,687</u>

A summary of changes in net assets for the years ended December 31, 2004 and 2003 are as follows:

	Governmental Activities	
	2004	2003
Program Revenues:		
Charges for Services	\$ 1,343,615	1,824,797
Operating Grants and Contributions	3,944,085	3,904,165
Capital Grants and Contributions	69,109	450,752
Interest Income	7,299	7,078
Reimbursements	-	167,500
General Revenues:		
Gain on Disposal of Equipment	34,418	3,530
Total Revenues	<u>5,398,526</u>	<u>6,357,822</u>
Program Expenses:		
Primary Roads:		
Maintenance	1,565,466	1,742,591
Local Roads:		
Maintenance	1,820,964	1,433,282
State Trunkline:		
Maintenance	767,751	656,362
Nonmaintenance	34,455	284,530
Equipment Expense	83,373	196,215
Administrative	370,567	329,376
Other	105,339	9,363
Interest	92,590	74,649
Total Expenses	<u>4,840,505</u>	<u>4,726,368</u>
Increase in Net Assets	<u>\$ 558,021</u>	<u>\$ 1,631,454</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund decreased \$637,817 as compared to an increase of \$855,240 in the fund balance for the year ended December 31, 2003 (last year). Total revenues were \$5,398,526, a decrease of \$959,296 as compared to last year. This change in revenues resulted primarily from a reduction in grant funding.

Total expenditures were \$6,036,343, a decrease of \$1,883,394 as compared to last year. This change in expenditures is primarily the decrease in capital outlay in the current year and loan reductions. The road commission incurred capital outlays due to significant renovations and equipment purchases.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2004 was lower than the actual receipts by \$124,704. This was due, in a large part, to the projection of Michigan Transportation Funds.

Road Commission expenditures were projected at \$6,201,859 while actual expenditures were \$6,036,343. This resulted in total expenditures under budget by \$165,516. The largest share of the variance is in the heavy maintenance line item.

Capital Asset and Debt AdministrationCapital Assets

As of December 31, 2004 and 2003, the road commission had invested in capital assets as follows:

	<u>2004</u>	<u>2003</u>
Capital Assets Not Being Depreciated		
Land and Improvements	<u>\$ 1,079,975</u>	<u>798,770</u>
Other Capital Assets		
Buildings and Improvements	4,518,568	3,846,017
Road Equipment	6,162,745	6,134,253
Other Equipment	693,151	693,092
Infrastructure and Improvements	<u>1,061,716</u>	<u>763,371</u>
Total Capital Assets at Historic Cost	12,436,180	11,436,733
Total Accumulated Depreciation	<u>(6,607,903)</u>	<u>(6,293,708)</u>
Total Net Capital Assets	<u>\$ 6,908,252</u>	<u>\$ 5,941,795</u>
Current year's major additions included the following:		
Land Improvements	<u>\$ 126,730</u>	<u>\$ -</u>
Building Renovations	<u>\$ 541,791</u>	<u>\$ 21,785</u>
Various Resurfacing Projects	<u>\$ 601,335</u>	<u>\$ 1,503,262</u>
Trucks/Equipment	<u>\$ 265,819</u>	<u>\$ 640,287</u>

Debt

The road commission paid long-term debt obligations in the amount of \$238,771. The Commission executed an installment obligation with the Emmet County Building Authority during 2005 as well. These monies were used for equipment purchases and renovation of the Levering location.

Economic Factors and Next Year's Budget

The board of county road commissioner's considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The road commission derives approximately 74% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Emmet County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Emmet County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Emmet County Road Commission administrative offices at 2265 E. Hathaway Road, Harbor Springs, Michigan.

Basic Financial Statements

Emmet County Road Commission

Statement of Net Assets December 31, 2004

ASSETS

Cash and Equivalents	\$ 578,460
Accounts Receivable:	
Michigan Transportation Fund	581,536
State – Trunkline Maintenance	146,174
State – Other	2,170
Sundry Accounts	66,879
Due on County Road Agreements	126,042
Inventories:	
Road Materials	387,879
Equipment, Parts and Materials	96,757
Capital Assets (Net of Accumulated Depreciation)	<u>6,908,252</u>
Total Assets	<u>\$ 8,894,149</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 142,524
Accrued Liabilities	27,479
Advances from State	236,586
Deferred Revenue	161,675
Interest Payable	7,176
Escrow Payable	5,007
Installment Purchase Agreements Payable	228,352
Noncurrent Liabilities:	
Vested Employee Benefits	200,610
Installment Purchase Agreements Payable	<u>2,155,032</u>
Total Liabilities	<u>3,164,441</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	4,517,692
Restricted for County Road	<u>1,212,016</u>
Total Net Assets	<u>\$ 5,729,708</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Statement of Activities For the Year Ended December 31, 2004

Program Expenses:

Primary Road Maintenance	\$ 1,565,466
Local Road Maintenance	1,820,964
State Trunkline Maintenance	802,206
Net Equipment Expense	83,373
Net Administrative Expense	370,567
Other	105,339
Interest Expense	<u>92,590</u>

Total Program Expenses 4,840,505

Program Revenues:

License and Permits	38,663
Federal Grants	69,109
State Grants	3,944,085
Contributions from Local Units	487,088
Charges for Services	817,864
Investment Earnings	<u>7,299</u>

Total Program Revenues 5,364,108

Net Program Revenues 523,603

General Revenue

Gain on Equipment Disposal	<u>34,418</u>
----------------------------	---------------

Total General Revenues 34,418

Change in Net Assets 558,021

Net Assets

Beginning of Year – As Previously Reported	5,376,687
Prior Period Adjustment – Bonds Payable	<u>(205,000)</u>
Beginning of Year – Restated	<u>5,171,687</u>
End of Year	<u><u>\$ 5,729,708</u></u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Balance Sheet
December 31, 2004

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	\$ 578,460
Accounts Receivable:	
Michigan Transportation Fund	581,536
State Trunkline Maintenance	146,174
State – Other	2,170
Due on County Road Agreements	126,042
Sundry Accounts	66,879
Inventories:	
Road Materials	387,879
Equipment, Parts, and Materials	<u>96,757</u>
Total Assets	<u>\$ 1,985,897</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 142,524
Accrued Liabilities	27,479
Escrow Payable	5,007
Advances from State	236,586
Deferred Revenue	<u>161,675</u>
Total Liabilities	<u>573,271</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,412,626</u>
Total Fund Equities	<u>1,412,626</u>
Total Liabilities and Fund Equities	<u>\$ 1,985,897</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2004

Total Governmental Fund Balance	\$ 1,412,626
---------------------------------	--------------

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,908,252
--	-----------

Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(2,583,994)
---	-------------

Interest accrued on long term debt obligations payable in current period.	<u>(7,176)</u>
--	----------------

Net Assets of Governmental Activities	<u>\$ 5,729,708</u>
---------------------------------------	---------------------

Emmet County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2004

	General Operating Fund
Revenues:	
License and Permits	\$ 38,663
Federal Sources	69,109
State Sources	3,944,085
Contributions from Local Units	487,088
Charges for Services	817,864
Interest and Rents	7,299
Other Revenue	<u>34,418</u>
Total Revenues	<u>5,398,526</u>
Expenditures	
Public Works	5,243,911
Capital Outlay	444,373
Debt Service	<u>348,059</u>
Total Expenditures	<u>6,036,343</u>
Excess of Revenues Over (Under) Expenditures	(637,817)
Fund Balance – January 1, 2004	<u>2,050,443</u>
Fund Balance – December 31, 2004	<u>\$ 1,412,626</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2004

Net Change in Fund Balance – Total Governmental Funds	\$ (637,817)
---	--------------

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	967,340
--	---------

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	(883)
---	-------

Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Proceeds from issuance is a financing source in governmental funds.	238,771
---	---------

Expenditures which are not considered incurred under modified accrual, but are recognized as expenses in the year.	<u>(9,390)</u>
--	----------------

Change in Net Assets of Governmental Activities	<u>\$ 558,021</u>
---	-------------------

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Emmet County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Emmet County Road Commission.

The Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain significant items in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Emmet County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Emmet County Road Commission, a discretely presented component unit of Emmet County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Emmet County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or EquityCash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are stated at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Emmet County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Emmet County Road Commission has capitalized only the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested vacation leave upon death, retirement or resignation. Sick leave vests upon death or retirement, limited to 50% of their total accumulated sick time up to a maximum of 50 days.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYBudgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund.

The Road Commission's Chief Administrative Officer (manager) and Clerk prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Clerk to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 5,300
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	529
Money Markets	<u>572,631</u>
Total Cash	<u>\$ 578,460</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

NOTE 3 - CASH AND DEPOSITS (Continued)

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 5,829	\$ 110,365

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 3, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage. However, given the amount of the Road Commission's funds relative to the common bank account total, we estimate that \$110,365 of the Road Commission's fund to be substantially insured.

Investments – The Commission's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Commission's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Commission's name.

	<u>Category</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>
	\$	\$	\$
Uncategorized Investments:			
Money Market		\$ 572,631	\$ 572,631
Total		\$ 572,631	\$ 572,631

NOTE 4 - DEFERRED COMPENSATION PLAN

The Emmet County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Emmet County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Emmet County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Emmet County Road Commission for the current year was as follows:

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 37,094	\$ -	\$ -	\$ 37,094
Infrastructure Improvements	739,891	302,990	-	1,042,881
Construction in Progress	<u>21,785</u>	<u>-</u>	<u>(21,785)</u>	<u>-</u>
Subtotal	<u>798,770</u>	<u>302,990</u>	<u>(21,785)</u>	<u>1,079,975</u>
Capital Assets Being Depreciated				
Land Improvements	738,204	126,730	-	864,934
Buildings	3,107,813	541,791	4,030	3,653,634
Road Equipment	6,134,253	259,219	(230,727)	6,162,745
Shop Equipment	194,550	2,350	-	196,900
Office Equipment	108,647	-	(1,936)	106,711
Engineers' Equipment	66,488	-	(2,355)	64,133
Yard and Storage	191,606	4,250	(2,250)	193,606
Depletable Assets	131,801	-	-	131,801
Infrastructure – Roads	<u>763,371</u>	<u>298,345</u>	<u>-</u>	<u>1,061,716</u>
Subtotal	<u>11,436,733</u>	<u>1,232,685</u>	<u>(233,238)</u>	<u>12,436,180</u>

Emmet County Road Commission**Notes to Financial Statements
For the Year Ended December 31, 2004****NOTE 5 - CAPITAL ASSETS (Continued)**

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Less Accumulated Depreciation				
Land Improvements	-	936	-	936
Buildings	746,589	77,938	(17,755)	806,772
Road Equipment	5,056,493	387,311	(230,727)	5,213,077
Shop Equipment	155,500	15,308	-	170,808
Office Equipment	93,222	3,464	(1,936)	94,750
Engineers' Equipment	54,653	4,496	(1,472)	57,677
Yard and Storage	123,630	15,876	(2,250)	137,256
Depletable Assets	63,621	-	-	63,621
Infrastructure – Roads	-	63,006	-	63,006
Subtotal	6,293,708	568,335	(254,140)	6,607,903
Net Capital Assets Being Depreciated	5,143,025	664,350	20,902	5,828,277
Total Net Capital Assets	\$ 5,941,795	\$ 967,340	\$ (883)	\$ 6,908,252

Depreciation expense was charged to programs of the Emmet County Road Commission as follows:

Equipment and Storage	489,084
Administrative	13,406
Other	65,845
Total Depreciation Expense	\$ 568,335

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)**

Plan Description – The Emmet County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Emmet County Road Commission's competitive bargaining units and requires a contribution from the employees of 1.1% percent of gross wages for County Road Commission.

Annual Pension Costs – For year ended 2004, the Emmet County Road Commission's annual pension cost of \$198,707 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31st is as follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 7,954,113	\$ 7,729,466	\$ 7,794,682
Actuarial Accrued Liability	9,518,046	9,954,652	10,334,532
Unfunded AAL	1,563,933	2,225,186	2,539,850
Funded Ratio	84%	78%	75%
Covered Payroll	820,659	843,341	798,875
UAAL as a Percentage of Covered Payroll	191%	264%	318%

Defined Contribution Pension Plan

The Emmet County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 10% percent of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested. Eligible employees are required to contribute 2% of their earnings.

The Emmet County Road Commission's total payroll during the current year was \$1,860,880. The current year contribution was calculated based on covered payroll of \$987,735, resulting in an employer contribution of \$98,774 and employee contributions of \$19,755.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2004, the federal aid received and expended by the Road Commission was \$69,109 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	<u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/04</u>
Installment payable – Emmet County Building Authority	\$2,417,155	\$ -	\$ 138,771	\$2,278,384
Bonds Payable	205,000	-	100,000	105,000
Compensated absences	<u>191,220</u>	<u>9,390</u>	<u>-</u>	<u>200,610</u>
Total	<u>\$2,813,375</u>	<u>\$ 9,390</u>	<u>\$ 238,771</u>	<u>\$2,583,994</u>

(1) The change in compensated absences is shown as a net addition.

		<u>Due Within One Year</u>
Bonds Payable – 1995 Series – Emmet County Building Authority, (Refundable) December 2003, sliding scale interest rate. 3.8% to 5.75%.	\$ 105,000	\$ 105,000

NOTE 9 - LONG-TERM DEBT (Continued)

		<u>Due Within One Year</u>
\$2,417,155 Installment Payable to Emmet County Building Authority 14 years including sliding scale interest rate of 2.4% to 4.25% maturing in 2017.	<u>2,278,384</u>	<u>123,352</u>
Total long-term debt	<u>\$ 2,383,384</u>	

Annual debt service requirements:

Notes Payable:	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 123,352	\$ 82,795	\$ 105,000	\$ 2,573
2006	149,655	80,065	-	-
2007	154,190	76,834	-	-
2008	158,725	73,116	-	-
2009	135,143	69,442	-	-
2010-2014	888,861	265,404	-	-
2015-2017	<u>668,458</u>	<u>52,402</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,278,384</u>	<u>\$ 700,058</u>	<u>\$ 105,000</u>	<u>\$ 2,573</u>

NOTE 10 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the County Road Commission provides post-employment health care benefits to all retired employees and/or their spouse. The benefit includes the provision that a retiree pays 100% of the cost of the premium. The commission remitted \$87,816 for post employment benefits during 2004.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2004.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

NOTE 12 - SUBSEQUENT EVENTS

During March 2005, the County of Emmet provided debt relief to the Road Commission due to a change in the allocation of a bond premium. The amount of debt obligation reallocation was \$86,716, which will be allocated over the period of installment obligation, due in 2017.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

In the previous year, the governmental unit did not report debt owed related to a refunding of a 1995 Bond issue. The amount invested in capital assets has been restated to conform with U.S. generally accepted accounting principles as follows: Decrease in net assets \$205,000. Beginning net assets were restated to \$5,171,687 from previously the reported amount of \$5,376,687.

Required Supplementary Information

Emmet County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits				
Permits	\$ 60,000	\$ 34,957	\$ 38,663	\$ 3,706
Federal Sources				
Surface Transportation Program	50,000	69,109	69,109	-
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	3,360,000	3,600,934	3,638,790	37,856
Urban	80,000	99,210	104,891	5,681
Snow Removal	130,000	140,184	140,185	1
Economic Development Fund				
"D" Funds	10,000	15,218	15,219	1
Forest Road	63,000	35,000	35,000	-
Other	34,000	-	-	-
Contributions from Local Units				
Townships and Villages	350,000	449,162	485,636	36,474
Other	-	507	1,452	945
Charges for Services				
State Trunkline Maintenance	625,000	730,000	767,751	37,751
Nonmaintenance	25,000	35,214	34,455	(759)
Salvage Sales	-	10	10	-
Interest and Rents	7,000	7,000	7,299	299
Other Revenue				
Other	5,000	12,017	15,648	3,631
Gain on Equipment Disposal	<u>10,000</u>	<u>35,300</u>	<u>34,418</u>	<u>(882)</u>
Total	<u>\$ 4,819,000</u>	<u>\$ 5,273,822</u>	<u>\$ 5,398,526</u>	<u>\$ 124,704</u>

Emmet County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Heavy Maintenance	\$ 600,000	\$ 210,000	\$ 191,442	\$ 18,558
Maintenance	1,300,000	1,555,000	1,533,000	22,000
Local Road				
Heavy Maintenance	550,000	500,000	472,476	27,524
Maintenance	1,400,000	1,850,000	1,790,847	59,153
State Trunkline				
Maintenance	625,000	780,000	767,751	12,249
Nonmaintenance	25,000	38,000	34,455	3,545
Equipment Expense – Net	175,000	80,000	83,373	(3,373)
Administrative Expense – Net	350,000	385,000	370,567	14,433
Capital Outlay – Net	175,000	455,800	444,373	11,427
Debt Service				
Principal	240,000	238,771	238,771	-
Interest	93,000	92,590	92,590	-
Fees	<u>-</u>	<u>16,698</u>	<u>16,698</u>	<u>-</u>
Total Expenditures	5,533,000	6,201,859	<u>\$ 6,036,343</u>	<u>\$ 165,516</u>
Fund Balance – January 1, 2004	<u>2,050,443</u>	<u>2,050,443</u>		
Total Budget	<u>\$ 7,583,443</u>	<u>\$ 8,252,302</u>		

Other Supplementary Information

Emmet County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 2,528,974	\$ 1,980,801	\$ 888,751	\$ 5,398,526
Total Expenditures	<u>1,862,814</u>	<u>2,513,338</u>	<u>1,660,191</u>	<u>6,036,343</u>
Excess of Revenues Over (Under) Expenditures	666,160	(532,537)	(771,440)	(637,817)
Optional Transfers	(532,537)	532,537	-	-
Fund Balance – January 1, 2004	<u>423,309</u>	<u>-</u>	<u>1,627,134</u>	<u>2,050,443</u>
Fund Balance – December 31, 2004	<u>\$ 556,932</u>	<u>\$ -</u>	<u>\$ 855,694</u>	<u>\$ 1,412,626</u>

Emmet County Road Commission

Analysis of Revenues For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 38,663	\$ 38,663
Federal Sources				
Surface Transportation Program	35,123	-	-	35,123
Other	33,986	-	-	33,986
State Sources				
Michigan Transportation Fund				
Engineering	6,456	3,544	-	10,000
Allocation	2,349,362	1,289,428	-	3,638,790
Urban	71,800	33,091	-	104,891
Snow Removal	-	140,185	-	140,185
Economic Development Fund				
Rural Primary (D)	15,219	-	-	15,219
Forest Road (E)	10,000	25,000	-	35,000
Contributions from Local Units				
Cities and Villages	-	39,487	-	39,487
Townships	-	446,149	-	446,149
Other	-	-	1,452	1,452
Charges for Services				
State Trunkline Maintenance	-	-	767,751	767,751
Nonmaintenance	-	-	34,455	34,455
Salvage Sales	-	-	10	10
Interest and Rents	1,363	-	5,936	7,299
Other Revenue				
Miscellaneous	-	-	15,648	15,648
Gain on Disposals	<u>5,665</u>	<u>3,917</u>	<u>24,836</u>	<u>34,418</u>
Total Revenue	<u>\$ 2,528,974</u>	<u>\$ 1,980,801</u>	<u>\$ 888,751</u>	<u>\$ 5,398,526</u>

Emmet County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 191,442	\$ -	\$ -	\$ 191,442
Maintenance	1,533,000	-	-	1,533,000
Local Road				
Heavy Maintenance	-	472,476	-	472,476
Maintenance	-	1,790,847	-	1,790,847
State Trunkline Maintenance	-	-	767,751	767,751
State Trunkline Nonmaintenance	-	-	34,455	34,455
Equipment Expense – Net	23,811	39,694	19,868	83,373
Administrative Expense – Net	160,246	210,321	-	370,567
Capital Outlay – Net	(45,685)	-	490,058	444,373
Debt Service				
Debt Principal Payments	-	-	238,771	238,771
Interest Expense	-	-	92,590	92,590
Other	-	-	16,698	16,698
Total Expenditures	<u>\$ 1,862,814</u>	<u>\$ 2,513,338</u>	<u>\$ 1,660,191</u>	<u>\$ 6,036,343</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited the financial statements of the governmental activity and major fund of the Emmet County Road Commission as of and for the year ended December 31, 2004, which collectively comprise the Emmet County Road Commission's basic financial statements and have issued our report thereon dated April 21, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Emmet County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated April 21, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emmet County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 21, 2005

Emmet County Road Commission

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2004

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Project Number	Agency or Pass-through (Job) Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-through from the State of Michigan Department of Transportation (MDOT):				
Mitchell Road from Springvale Township Line	20.205	STP 0324(003)	72772	\$ 30,894
Horton Bay Road from Charlevoix County Line	20.205	STP 0324(001)	72775	22,038
Guardrail Upgrade Safety Project	20.205	STP 0324(004)	73779	<u>12,802</u>
Subtotal – MDOT-administered awards				<u>65,734</u>
Total U.S. Department of Transportation				<u>65,734</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY:				
Pass-through from the State of Michigan Department of State Police (MSP):				
Hazard Mitigation Grant	97.039		1413 DR-MI	<u>3,375</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 69,109</u>



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board of Commissioners
Emmet County Road Commission
Harbor Springs, MI 49740

We have audited the financial statements of the Emmet County Road Commission for the year ended December 31, 2004, and have issued our reports thereon dated April 21, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities for the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Emmet County Road Commission. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Emmet County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Emmet County Road Commission are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Emmet County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability. State maintenance liabilities and estimated useful lives are examples.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Emmet County Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are material to the current financial statements.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Emmet County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Emmet County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Infrastructure Capitalization

The Road commission will be required to identify and depreciate infrastructure assets as required by GASB 34. The Commission should adopt a threshold of \$5,000 or \$10,000 to provide guidance on depreciable items capitalized. Additionally, depreciation schedules and a chart of accounts should be established in accordance with Treasury Bulletins.

Status: Corrected.

Excess Expenditures Over Appropriations

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County Road's actual expenditures were in excess of amounts appropriated for certain line items as indicated on the Statement of Expenditures – Budget and Actual.

Status: Corrected.

Building Authority Obligation

During August 2004, the commission participated in an installment obligation with the Emmet County Building Authority in the amount of \$2.4 million. The Commission and Building Authority have not executed a financing document, note payable or debt assignment as of the audit date.

Status: During March 2005, the Board executed an agreement regarding loan provisions.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Emmet County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 21, 2005